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SUBJECT: SINGAPORE COMMITTEE RECOMMENDS PRODUCTIVITY BOOST TO DRIVE GROWTH

REF: SINGAPORE 113

1. (SBU) Summary: Singapore's Economic Strategies Committee released recommendations to drive future growth, focusing on raising productivity by improving worker skills, encouraging innovation, and limiting the economy's reliance on foreign labor. The recommendations mark a policy shift from a previous focus on expanding growth at all costs to a recognition that Singapore's physical limits in resources and population have caught up with its economic growth and that a slower pace of growth will be more sustainable. The Committee's report recognizes the need to continue to attract foreign multinational companies and position Singapore as a global hub for business, but also advocates policies to support local enterprises become more competitive. PM Lee has broadly endorsed the goals and the 2010 budget due February 22 will likely put many of the proposals into practice. End Summary.

2. (U) After eight months of deliberation, Singapore's Economic Strategies Committee (ESC) released its report February 1 with recommended strategies to provide sustained and inclusive growth for Singapore. Prime Minister Lee Hsien Loong established the committee with representatives from government, business and labor last year in the wake of the global economic crisis and a growing perception that the Singapore model of economic growth was in need of retooling. The Committee is the latest in a series of similar committees that the government has established after previous economic crises to put the country back on the right economic track. Although the recommendations remain just that, PM Lee has already broadly endorsed the ESC's report. The 2010 budget due out on February 22 will almost certainly include many of the Committee's recommendations and specific measures to put them into practice.

Working Smarter, Not Harder

3. (SBU) Central to the ESC's report are recommendations to boost productivity growth over the next decade. The Committee proposed a goal of 2-3 percent annual growth in productivity over the next ten years, after a relatively anemic average of one percent growth in the previous decade. Although Singapore's GDP grew at an impressive annual pace of 4.7 percent between 2000-9, much of the growth was driven by increases in the labor force rather than through improvements in productivity (reftel). The ESC's initial recommendation is to improve worker skills through continuing education and training. Enterprises are encouraged to be more innovative by putting more investment into technology and training, with a goal to spend 3.5 percent of GDP (from 3% currently) on research and development. The ESC recommends establishing a National Productivity Fund to provide grants to support productivity initiatives. The Committee also pitched ideas for greater land productivity, including suggestions that Singapore place more facilities underground.

And With Fewer Foreigners

¶4. (SBU) The ESC also recommended increasing productivity by managing the economy's dependence on foreign workers, which now make up one-third of the total workforce. The Committee called for a cap on the size of the foreign workforce at the current proportion of the total labor force, which would allow foreign workers to continue to enter Singapore but at a slower rate. Economists have blamed the easy availability of low-cost imported labor for relatively low investment in modern manufacturing methods and the resulting declines in productivity growth in recent years. To avoid a shock to the manufacturing sector the Committee recommends managing the inflow of foreign workers by gradually raising levies on their employment. However, the gradual pace means the impact on productivity in the short term will be modest. A Standard Chartered Bank analysis suggested that industries likely to be hardest hit by the restrictions will be the construction sector, low-end manufacturing, and labor-intensive service industries like hotels and restaurants.

Boosting Industry

¶5. (U) Unlike similar committees in the past, the ESC did not single out specific industries for targeted support to drive growth forward, but did recognize that the country's financial services, healthcare and urban services industries are well-placed to serve the region's growing demand for services. The coming budget may include incentives to further support those industries. The report also recommended keeping manufacturing as a key pillar of Singapore's economy, maintaining its position as 20-25 percent of

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GDP.

¶6. (U) The Committee recommended continuing Singapore's strategy of positioning itself as a "Global-Asia Hub", attracting multi-national firms to establish operations in Singapore to take advantage of opportunities in rapidly growing Asia. However, the Committee also added global mid-sized companies to the mix of industries to attract, and encouraged measures to make local Singapore enterprises more competitive globally. The Committee called for better cross-border financing capacity for local industry, including an Export-Import Bank and a seed fund for new capital for small- and medium-sized enterprises.

Going Nuclear

¶7. (U) More controversially, the Committee's report recommended examining the feasibility of nuclear energy to diversify the Singapore's energy sources. S. Iswaran, co-chair of the ESC sub-committee on energy, made clear that the prospect of nuclear energy was in the very distant future, but advocated beginning the process of studying its potential now given the complexity of the issue. Given Singapore's small size a standard nuclear power plant would not meet current international safety guidelines on proximity to populated areas, but energy analysts said an offshore or underground facility could reduce dangers. In the meantime, the Committee recommended exploring diversifying energy sources, developing renewable energy, promoting energy efficiency, and pricing energy to reflect external costs like environmental stability and energy security.

The Paradigm Shift

¶8. (SBU) Dr. Choy Keen Meng, Associate Professor of Economics at Nanyang Technological University and frequent commentator on Singapore's economy, told Econoff that many of the report's proposals are close in line with Singapore's existing economic strategy, but that the report did demonstrate a paradigm shift toward the quality of economic growth and not just its rate of expansion. The recommendations would move Singapore away from a previous "growth at all costs" strategy to one more reflective of

Singapore's population and space constraints that require a slower and more sustainable pace of growth. Nevertheless, Dr. Choy saw the goal of three percent productivity growth as a tall order. Serious restrictions on the import of foreign labor could curtail overall economic growth in the short run, particularly if unemployment continues to drop.

Comment

¶9. (SBU) The ESC's recommendations accurately gauge some of Singapore's economic problems and provide steps to overcome these barriers to broader economic growth. However, the committee did not address some key structural issues that will continue to limit Singapore's growth potential. Although many of these issues are politically-related, and therefore presumably more difficult for a public/private entity like the ESC to tackle, pushing these bolder reforms would have a much greater and more successful chance to transform the economy. The ESC recommendations focused on labor productivity, but neglected to address the productivity of capital, which is linked to the lack of a truly competitive business environment because of the overwhelming size of government-linked companies in many core areas of the economy. The report notably lacked a plan to rebalance the economy away from a dependence on exports, as pushed by the G-20 and to which Singapore has agreed to, and boost domestic demand. No mention was made of the low level of private savings for retirement among the ageing population, and whether to use the large public savings of Singapore's sovereign wealth funds towards supporting private savings for this growing segment of the population. Finally, the report accurately pointed out the need to make Singapore a more vibrant and culturally rich city to attract talent and promote innovation, but did not recommend a political and cultural shift to greater openness and debate that would be necessary to foster that vibrancy.

¶10. (U) The ESC's full set of recommendations can be found at www.esc.gov.sg.

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